

VZCZCXYZ0018

OO RUEHWEB

DE RUEHQT #2168/01 2641215

ZNR UUUUU ZZH

O 211215Z SEP 07

FM AMEMBASSY QUITO

TO RUEHC/SECSTATE WASHDC IMMEDIATE 7762

INFO RUEHGL/AMCONSUL GUAYAQUIL PRIORITY 2824

RULSDMK/DEPT OF TRANSPORTATION WASHDC PRIORITY

UNCLAS QUITO 002168

SIPDIS

SIPDIS

PLS PASS TO DEPT OF TRANSPORTATION: ATTN BRIAN HEDBERG

E.O. 12958: N/A

TAGS: [EAIR](#) [EC](#) [EFIN](#) [ETRD](#)

SUBJECT: QUITO AIRPORT EXPENSIVE FOR U.S. CARRIERS

REF: QUITO 2167

¶1. (SBU) Summary: U.S. air carriers say that their ongoing dispute with the current Quito airport concessionaire over usage fee increases has caused them to re-evaluate their operations. The airlines say they support the new Quito airport project (the reason for current airport fee increases), but that current costs have caused at least one major cargo carrier to consider moving operations to Latacunga, south of Quito. American Airlines hints that it may redirect some services to Guayaquil. U.S. carriers also voiced concerns over differential fuel pricing and possible controls over travel agent fees. End summary.

¶2. (U) The Embassy met with four U.S. carriers on August 31 (American, Continental, UPS and Arrow Air).

#### Quiport Fees

-----

¶3. (SBU) During the meeting the carriers focused their complaints on what they say are high fees at the Quito Airport. They reiterated their prior complaints that the airport concessionaire, Quiport, has raised fees by 64% over the previous 18 months, in large part to cover the financing costs of the new Quito airport which is being constructed by the same concessionaire that is operating the current airport. They asserted that Quiport has the highest rate structure in the region after Mexico City, although they assert the service is far better in Mexico City. They also complained that there is no limit on how much further Quiport could raise rates in the future.

¶4. (SBU) In 2006 the airline association ARLAE (which includes all foreign carriers) filed a request for injunction, and the airlines began paying their fees "by consignment" into an account managed by the courts. On August 30, 2007, the Constitutional Court dismissed the case without comment. American Airlines told econoffs that it plans to file another request for injunction, but by September 7, the Constitutional Court had still not published its decision.

¶5. (SBU) According to the carriers, in August 2007, the mayor of Quito, Paco Moncayo, proposed a mediation commission, but the airlines complained that his choice of mediators was biased because the nominees included the municipality's lawyer who negotiated the airport concession.

¶6. (SBU) The carriers say that because the current cost of operations is so high, they are re-evaluating their operations. One cargo carrier, UPS, is thinking of moving to Latacunga, south of Quito, and passenger carriers note that if there were fewer carriers overall at the Quito airport, the cost to those who remain would be even higher, according

to Quiport's current pay scheme. Because of this, American Airlines hinted that these high costs may be driving the passenger market toward Guayaquil, away from Quito.

¶17. (SBU) The airlines told us that they support the new airport project, but that they are unsure of the facilities and services they will be offered there, and therefore object to having to pay now for future services. They alleged that Quiport has never fully disclosed its finances (in contrast, they said, the Guayaquil airport has reviewed its finances with the carriers), and argued that Quiport has been given free rein by the Quito municipality to set rates. They argued that instead, an outside body should set the rates for the airport, taking into consideration the financial condition of the concessionaire, its willingness to cover part of the construction cost with equity, and the impact the rates will have on other economic activity, such as tourism and the export industry.

¶18. (U) (Two side notes: In an AmCham meeting on September 14, a U.S. flower exporter and U.S. hotel operator complained about the high cost of the Quito airport. The flower operator asserted that the additional transportation cost undermines his company's competitiveness against suppliers from other countries. The hotel operator said that he has lost some package tours to Guayaquil because of the high airport fees. Separately, Quiport contacted the Embassy, offering a tour of the new airport site and a discussion of the new operation. The visit will take place in mid-October.

#### Fuel Prices and Travel Agent Fees

-----

¶19. (U) In an effort to broaden the conversation, Embassy asked the U.S. carriers if they have additional concerns beyond the Quiport fee structure. They indicated two: fuel prices and travel agent fees.

¶10. (SBU) Carriers complained that domestic Ecuadorian carriers benefit from subsidized jet fuel (reftel), and that at least one domestic company, Aerogal, will soon begin flights to the U.S. and will benefit from the subsidized fuel as it competes directly with U.S. carriers. Second, the airlines worried that the Correa government might support efforts to regulate travel agency commissions. They did not point to any specific signals from the current government, but instead noted that the prior government had supported minimum travel agents fees and asserted that the issue could arise again (perhaps within the upcoming Constituent Assembly). They said that travel agencies are currently advocating for a new law to regulate their fees.

¶11. (SBU) Comment: The U.S. aviation industry's concern in Ecuador is Quiport, Quiport and more Quiport; they only brought up fuel prices and travel agent fees because we asked. Trying to obtain any sort of relief from current or future rate increases at the Quito airport will be thorny, however. Relations between the carriers and Quiport are tense, and in an earlier meeting with Quiport, the local head of the concession implied that he was willing to cut services for those who do not directly pay their fees. Furthermore, the mayor of Quito sees the new airport as a pet project, and is sensitive to any criticism, although the argument that current fees should not pay for future services has begun to obtain some resonance with the Municipal Council. Both the mayor and council might also be sensitive to Quito losing aviation services and tourism. End comment.

JEWELL